

## 06-02-Investing and Cash Flow Management

Fund/Agency: 001/06		Department of Finance
Personnel Services	\$354,315	<p style="text-align: center;"><b>CAPS Percentage of Agency Total</b></p> <p style="text-align: center;">7.2%</p> <p style="text-align: center;">92.8%</p> <div style="display: flex; justify-content: center; align-items: center;"> <div style="width: 10px; height: 10px; background-color: blue; margin-right: 5px;"></div> Investing and Cash Flow Management             <div style="width: 10px; height: 10px; background-color: yellow; margin-left: 10px; margin-right: 5px;"></div> All Other Agency CAPS         </div>
Operating Expenses	\$110,026	
Recovered Costs	\$0	
Capital Equipment	\$0	
<b>Total CAPS Cost:</b>	<b>\$464,341</b>	
Federal Revenue	\$0	
State Revenue	\$21,801	
User Fee Revenue	\$0	
Other Revenue	\$0	
<b>Total Revenue:</b>	<b>\$21,801</b>	
<b>Net CAPS Cost:</b>	<b>\$442,540</b>	
Positions/SYE involved in the delivery of this CAPS	6/6	

### ► CAPS Summary

Throughout the year, the County has available from \$1.2 billion to \$1.8 billion in cash. The Department of Finance maintains the capability to project cash receipts from revenues; to estimate the amounts needed to meet monetary obligations; to determine the amounts of cash available for investment and the periods of time it can be invested without risk of lost liquidity. Through a comprehensive investment policy and with oversight by a senior Investment Committee, individual investment vehicles are selected and staff executes purchase transactions each day, directly with investment brokers.

All funding for this activity comes from the County's General Fund. Staff also invests and manages cash flow to accommodate certain enterprise, externally funded, or self-supporting activities; a portion of the investment earnings from these activities is paid to the General Fund to cover the cost of this accommodation. The charge is based on rates charged by commercial providers for similar services.

## *Department of Finance*

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The department has consistently met the objectives of this service: preservation of capital, timely availability of cash to meet obligations; and a return on investments that meets or exceeds industry standard benchmarks. Key to this has been development and strict adherence to sound investment policies. For the past two years, the County's investment policy has twice been accorded recognition by the Municipal Treasurers Association; it has been used as a model for other jurisdictions; and the County has been invited by the Association to perform evaluations of the policies of other jurisdictions.

The expanding use of electronic payment systems has greatly changed the way cash managers have dealt with "float". Funds are available more quickly and the managed float of County payments continues to shrink, calling for creative new ways to monitor and analyze cash available for investment. Coupled with significant changes in the money market brought about by mergers and acquisitions and diminishing supplies of certain foundation investment vehicles, more sophisticated analysis is required than in the past. The Department is making use of an automated tool (a treasury workstation) that facilitates many labor-intensive analytic processes. It permits extensive use of historic transaction data for forecasts and performance measurement and the workstation interacts with banks, brokers, and commercial financial reporting services on a near-real time basis.

The most significant change over the past several years has been the consolidation (by acquisition or merger) of many financial institutions, limiting investment choices as we seek to maintain portfolio diversity and shifting the provider-of-choice for many banking services. In adjusting to these changes we are focusing more narrowly the banking products acquired through the general banking contract and providing assistance to others in obtaining specially tailored banking products.

Cash available for investment has grown from a low in 1997 of \$781 million to a high of \$1,840 million in 2001. The basic approach to investing these funds remains the same, but the marketplace has reacted to a number of non-cyclical events such as the revaluation of technology stocks, pressure on the equities market in general, and the change in national administrations at a time of large budget surpluses and continued calls for tax reduction. The debt securities market has reacted to these and other investor-sensitive events, validating the County's non-speculative funds placement and a hold-to-maturity approach.

Implementation of automation (the treasury workstation) has greatly improved the security of investment operations. By converting labor-intensive processes to fully automated steps, the investment analysts have been freed to allocate a greater portion of their time to economic research and portfolio analysis. Over time, accumulation of data by the workstation will provide a basis for additional cash flow projections and "what if" analysis, making a longer-term investment strategy feasible.

### ► **Method of Service Provision**

Investment services are provided entirely by County staff.

► **Performance/Workload Related Data**

Performance in this CAPS is measured by objective data in both the investing and bank services areas. In line with the objectives of preserving the safety of capital, maintaining liquidity, and achieving the highest yield within the constraints of the preceding two objectives, performance is measured by staff's adherence to carefully designed investment guidelines, by meeting the daily needs for cash to pay obligations yet achieving a targeted minimum of uninvested cash, and securing for the County interest revenue that meets or exceeds the benchmark for this type of portfolio. In this CAPS, we strive for consistent application of investment policy in all but the most rare situations, that is, a 99.88 percent success rate based on prior year experiences. We aim for 100 percent availability of cash to meet requirements, resulting in occasional excess balances above our target. The current goal is to meet target balances 95.7 percent of the time, a small yet challenging advance on prior year achievements. The benchmark used for investment earnings in this restricted, short-term portfolio is the rolling six-month Treasury bill. Our goal is to achieve a rate of return above that benchmark. In FY 2001, the goal was to earn 26 basis points (0.26 percent) above the average yield for six-month Treasury bills. Given the dramatic drop in yields anticipated for FY 2002 (approximately 60 percent of the prior year interest rates) the target spread between the benchmark and the County's return on investments will be judged by a proportionately reduced goal.

► **Mandate Information**

This CAPS is Federally or State mandated. The percentage of this CAPS' resources utilized to satisfy the mandate is 1 - 25%. The specific Federal or State code and a brief description of the code follows:

- Code of Virginia, 21-130 through 134. Deposit and accountability of bond proceeds.